Art. IV. — The Currency and Finances of the United States.

Nearly one hundred years have elapsed since the government of the United States was formed, yet no progress whatever seems to have been made in the settlement of some of the most important questions that can concern the welfare of our people. We may be said to be still in doubt as to the form of government under which we are living, whether one of paramount powers, or a partnership from which any member may withdraw at will. Mr. Jefferson's doctrine, stated so late as 1824, and thirty-five years after the adoption of the Constitution, that "the Federal and State governments are coordinate departments of one simple and integral whole; that to the State governments are reserved all legislation and administration in affairs that concern their own citizens only, to the Federal government whatever concerns foreigners or citizens of other States; that one is the domestic, the other the foreign, branch of the same government, neither having control over the other save within its own departments," *— has for political purposes been the authoritative interpretation of the Constitution, and the creed of the party that held almost uninterrupted control of the Federal government from his election in 1800 to the election of Mr. Lincoln in 1860. Upon this vital question time only served to array the country into two hostile camps. After a tremendous conflict the arms of the party which held that we were a *nation*, not a loose confederacy, triumphed, leaving, it is to be feared, the opinions of the vanquished mainly unchanged. Much has undoubtedly been gained from the precedents growing out of the war asserting the paramount powers of the Federal government. Parties are no longer necessarily defined by political boundaries. The great disturbing element, slavery, has been removed. Northern Virginia may now assimilate to Southern Pennsylvania, and this process may go on till we finally become a homogeneous people.

* See Mr. Jefferson's letter to Major Cartwright, Jefferson's Works, Sparks's edition, Vol. VII. p. 355.

One of the most important questions involved, and still unsettled, as to the functions of our government, is that relating to the management of its finances, including the provision of a currency. The State-rights party (we can find no better name) insisted from the outset, that, as the government was not one of paramount powers, it was not competent to charter a bank or a highway, on the ground that if such acts were allowable on account of the alleged usefulness of the measures then any other act, no matter what, might be justified for a similar reason; and that, in this way, government would be invested with plenary powers, — these powers to be measured only by the will or the caprice of the majority for the time being.

When the bill for chartering the first United States Bank reached the President, General Washington, for his signature, he requested the opinions of his Cabinet; and Mr. Jefferson, Secretary of State, and Mr. Randolph, Attorney-General, submitted elaborate arguments against the measure; and Mr. Hamilton, Secretary of the Treasury, the author of the bill, and Mr. Knox, Secretary of War, in favor of it. Every one is familiar with the arguments used. They have become threadbare from constant repetition. It was unconstitutional and pernicious, or constitutional and beneficent, according to the bias of the party discussing it. As a rule, the Northern States favored, while the Southern States opposed it. It is easy to see why this should have been the case. To the North, free and intelligent, every measure seemed constitutional that promised to promote its interests. In the South, society was founded on, and maintained by, force. Labor was blindfolded, that it might continue to be enslaved. To its people the protection and promotion of commercial and manufacturing interests meant protection and promotion for the North alone, as they could not share in the benefits without a total revolution in their social system. The pall, therefore, that rested upon them they insisted should rest upon the whole country, as the only means by which they could hope to hold the North in check, and maintain, in some sort, an equilibrium between slavery and freedom.

The result of the Cabinet discussion was the approval by

General Washington of the bill. The bank went immediately into operation, and exerted a most salutary influence, not only as the fiscal agent of the government, and in furnishing a currency of uniform value in every portion of the country, but in rescuing its finances from the chaotic condition in which they were left by the war of the Revolution by compelling the State banks to bring their notes up to the standard of the national one.

The charter of the bank expired in 1811. Its renewal was refused on the grounds previously urged by Mr. Jefferson. But the financial disorders, at one of the most critical periods of our history, were so frightful, and the government itself so utterly helpless, that the State-rights party was forced to eat its own words, and chartered, in 1816, a new bank upon the model of the old, but not till almost infinite mischief had been suffered. The results that followed the chartering of the new bank were similar to those that followed the old. The State banks, which had suspended during the war, were forced to resume or to go into liquidation; and the finances, both of the country and the government, were gradually restored.

In 1836 the charter of the second bank expired. Its renewal was refused upon the old pretext. Although the two banks had been in operation forty years, — a period only seven years less than that which had measured the duration of the government, — and although their constitutionality had been asserted by numberless acts of Congress, and by repeated decisions of the final arbiter provided by the Constitution to pass upon the validity of the laws made under its authority, yet all these things went for nothing when they stood in the way of adroit and unscrupulous political partisans. It happened at this time that one of the greatest masters of political chicanery and finesse that ever lived in this or any other country was at the head of the government. By dexterous appeals to the passions and prejudices of the farming and laboring classes, he arrayed them against those who represented the commercial and manufacturing interests of the country, and taught them to believe that the bank was nothing short of a monster, which, unless speedily and utterly destroyed, would reduce them to the condition of serfs and slaves.

Never in the history of this country was there a more disgraceful period than that which preceded and followed the expiration of the second bank charter; never one in which there was greater political demoralization; never one in which there was more widespread financial disaster: all directly chargeable to an unwarrantable and high-handed tampering with the currency.

One of the means used to break down the United States Bank was the removal from it of the government deposits, and their transfer to the State banks. There was no suggestion that a currency different in kind was needed, only that such currency should be supplied by State institutions. The power to charter banks, it was asserted, was one of the rights reserved to the States. They alone could supply a constitutional paper currency. No monopoly was to be feared from a combination of institutions deriving their existence from so many different sources. This authoritative recognition of their value and usefulness, and the patronage secured to them as depositories, in place of the United States Bank, of the revenues of the government, stimulated their formation to an extraordinary degree. A great many were chartered for the purpose of filling the vacuum to be created by the expected winding up of the national bank. The number of State banks in operation in 1830 was 282; in 1837, 632. Their capital increased in the same period from $145,000,000 to $290,000,000; their circulation from $61,000,000 to $149,000,000; their loans and discounts from $200,000,000 to $485,000,000; and their deposits from $55,000,000, to $127,000,000. With all this vast and unprecedented increase of banking facilities there was, during that same period, no considerable increase of the capital of the country, and no need whatever of the addition of a dollar to the currency. The greater part of the increased capital of the banks was wholly fictitious.

Hardly had General Jackson turned his back upon the Presidency, and hardly had the self-complacent words of congratulation, at the happy close of his administration, fallen from his lips, when the bubble which he had blown with so much labor and to such vast dimensions burst, scattering ruin and desolation on every hand. Almost every business man

and business institution went by the board. With the vast increase of currency, which was furnished for two or three years without stint, by the new institutions, a delirium of extravagance and speculation set in such as had never been witnessed since the South Sea Bubble. Many of our most important industries were in a great measure abandoned. In 1837 and 1838 we were compelled to import large quantities of food from Europe. But little was left to pay with or buy with. The recovery of the country to anything like a healthy condition was the work of years, as it was measured by the slow process of re-creation by the reconstructed industries of the country. All this inflation, with all the demoralizing and disastrous consequences, were the direct and inevitable results of General Jackson's famous "experiment," as he termed it, with the currency.

It is my purpose to refer but briefly to the melancholy period which, beginning in 1834, continued for nearly ten years. The banks suspended in 1837. They resumed payment in 1838. In 1839, the banks of Philadelphia and those south and west of that city again suspended. Those of several of the States were wholly wound up. Collections from the interior were impossible. In many of the States, such, for example, as Mississippi, literally nothing was paid on the debts for merchandise purchased at the North. A sponge was passed over the credits of the country. The result, however, was only the nécessary consequence of a tampering for partisan purposes with the currency and with the laws of trade, with a levity which excites astonishment even at this day of innovation and change.

The failure of the banks left the government without a penny at command. Congress was convened with all possible despatch, and an issue of treasury notes was authorized to serve for expenses till the deposits could be collected from the suspended banks.

As a national bank was held to be unconstitutional, and as the State banks had all failed, nothing seemed to be left for the government but to take care of itself, — to divorce all its operations from those of the trade and commerce of the country, and to collect into, and disburse from, its own strong-box

its revenues in coin. The Independent Treasury, as it was termed, was created, and has continued in operation to the present time. So long as the revenues of government, averaging only about forty millions annually, were on an insignificant scale compared with their present colossal magnitude, as no considerable sums had to be held for the payment of the principal or interest of a national debt, and as the revenues were paid out nearly as fast as they were collected, this mode of holding and disbursing the revenues exerted no particular influence in any direction, and, perhaps, was not an objectionable measure at the time it was adopted, and so long as the operations of the government continued on a very limited scale.

The election of Mr. Lincoln to the Presidency in 1860 was an era in the history of the country. The Southern States instantly availed themselves of Mr. Jefferson's doctrine. The alacrity with which they went, and the complete unanimity which they displayed in all their plans and purposes, show how radical had become the difference between the two sections of the country. Not a spark of national feeling remained in the whole South, — not a single sentiment of loyalty to the government to which it owed so much and around which so many glorious memories clustered. All, all, together with the better sentiments common to humanity, had been thoroughly tainted by the curse of slavery. To the North but one duty remained, — to put down the Rebellion, at all cost, and vindicate its manhood, its nationality, and the principles of freedom upon which it was based, and to purge itself once and forever from the foul ulcer which was preying upon its vitals.

To provide the means for putting down the Rebellion, Congress, as soon as it could be called together, authorized Mr. S. P. Chase, Secretary of the Treasury under the new administration, to issue United States notes payable in coin to the amount of $50,000,000, and to negotiate a loan of $150,000,000 from the banks of New York, Boston, and Philadelphia. This loan was made payable in three instalments, — on the 19th of August, on the 1st of October, and on the 2d of November, 1861.

On the 9th of December of the same year, Mr. Chase sub-

mitted his first Annual Report to Congress. Although up to that time he had been amply provided from the sources stated, it was evident that the mere provision of means for the prosecution of the war in no manner bounded his lofty aims. General Jackson had his "experiment," and it made him famous. With him, State banks were the only institutions competent to furnish a constitutional currency. With Mr. Chase the exact reverse was the case. "It has," he said, in his first report, "been well questioned by the most eminent statesmen, whether a currency of bank-notes issued by local institutions under State laws is not, in fact, prohibited by the national Constitution. Such emissions certainly fall within the spirit, if not within the letter, of constitutional prohibition of the emission of bills of credit by the States."

We do not care to ask who these most eminent statesmen were who "well questioned whether notes issued by local institutions under State laws were constitutional." No history records their names. It is certain that the constitutionality of such issues was never questioned by any tribunal, either of the States or of the United States. The former had exercised this right unchallenged for seventy-one years, — for the whole period of the duration of our government. But all such legislation, judicial decisions, and uniform precedent were instantly overthrown by the fiat of one man, to gratify his ambition of signalizing his administration of the finances by some distinguished measure, — all in the face of the most formidable rebellion that the world has ever seen.

"The whole circulation of the banks of the United States," said Mr. Chase, in his first Annual Report, "constitutes a loan without interest from the people to the banks, costing them nothing except the expense of issue and redemption, and the interest on the specie kept on hand for the latter purpose; and it deserves consideration, whether sound policy does not require that the advantages of this loan be transferred, in part at least, from the banks, representing only the interests of stockholders, to the government, to those representing the aggregate interests of the whole people." In a subsequent report he reiterated the statement "that notes circulating as money cost nothing but the expense of production and

supervision, and yet form a highly accumulative species of property. The necessities of war have caused the taxation of all forms of value. Can there be a sound reason for exempting from taxation that which costs the proprietor least and brings the most? The people demand a part of the benefit of *debt without interest made into money*, hitherto exclusively enjoyed by the banks. These demands are just and must be respected. The time has come when Congress should exercise this authority of transferring the advantages of this loan from the banks to the government representing the whole people. . . . . Two plans for effecting these objects are suggested. The first contemplates the gradual withdrawal from circulation of the notes of private corporations, and for the issue in their stead of United States notes payable in coin, on demand, in amounts sufficient for the ends of a representative currency. The second contemplates the preparation and delivery to institutions and associations of notes prepared for circulation and to be secured as to prompt convertibility into coin by a pledge of United States bonds and other needful regulations."

To give the Secretary the greater freedom of action, Congress, soon after it was called together, modified the law creating the Independent Treasury so as to allow the State banks to become the depositories and fiscal agents of the government. He declined, however, to avail himself of such provisions, and required the money borrowed to be carted, in coin, from the banks to the United States Treasury, there to be paid out to the public creditors. Such a policy, which severed entirely the operations of government from the business of the country, and which wholly ignored the contrivances by which its commerce is carried on, could have had but one result, — the exhaustion and suspension of the banks. Had he placed himself in the relation to them of an ordinary borrower, using their notes and credits, the loans made would not necessarily have weakened their specie reserves, or their ability to meet all the demands made by the war. But it will be more appropriate to discuss this topic in a subsequent portion of this article.

By the time that the $150,000,000 loan had been drawn, the coin of the banks had become wholly exhausted, and they suspended payment, December 30, 1861. Mr. Chase then

assumed that he could no longer borrow of them. He could no longer issue United States notes payable in coin, as he had no coin to pay with. He therefore so modified his financial schemes as to provide that the government should issue notes to be *legal tender* in all contracts as the only means by which the public could be made to receive them ; and that the notes to be issued by the banks to be chartered by the government should be convertible, not into coin, but into the legal-tender notes. Such was the system as proposed and finally adopted, — a system the corner-stone of which is " debt without interest made into money."

As this proposition and the system based upon it is something entirely novel in the science of currency and finance, its discussion would be a mere waste of words without some definite principles or standards to which to subject it. I therefore propose to restate, in a manner as brief as it can intelligibly be done, the origin and office of a metallic currency, the manner in which its use is superseded by other less costly and more convenient contrivances, and the provisions necessary to maintain such contrivances at the par value in gold. Till these questions are finally and authoritatively determined, discussion will only serve to confuse and mislead where it is meant to guide. There are now as many nostrums for our financial diseases as there are people who talk about them, as many bills for reform and relief as there are members of Congress ; while each succeeding day only serves to send us farther and farther from the true course, and to render all the more difficult any return.

The necessity of a common medium of exchange of property is too obvious to require extended elucidation or argument. With only a slight advance of a people in industrial pursuits, it would often be difficult for a person to supply his wants by the direct exchange of his products for those of another. To obviate this difficulty as far as possible, every one would seek to exchange his products as fast as they were accumulated for such articles of property or merchandise as were in most general request. If there were any possessing a universal attractiveness, they would, by virtue thereof, necessarily become

mediums of exchange, as each person would seek to become the owner of them by exchanging therefor whatever he possessed and desired to sell.

It is plain that, without such original preference for one or more articles of property, man never could have risen above a savage or barbarous condition, as all his exchanges would of necessity be in kind or by barter. Wherever they are made in this manner, he remains upon the lowest plane of social, moral, political, and material existence. All civilizations are based upon accumulations of property, the extent of which is always in ratio to division of labor; but such division is possible only where the laborer can be paid in some article which he may not produce, but with which, by direct exchange, he can always obtain that of which he stands in need. It would be most illogical to assume that a fact of such transcendent importance as the passage of the whole race from a savage to a civilized condition would be left to depend upon caprice, or upon convention or agreement which, without the common guidance of the instinct, or law supposed, would set up as many standards as there are nationalities, thus inevitably creating the very confusion which convention and agreement were to remedy.

Now universal experience proves that gold and silver have an attractiveness for man superior to that felt for any other kind of merchandise or property. In the earliest periods of which history or tradition gives any account, and which are far anterior to any possible concert or agreement between different nations, the precious metals occupied precisely the same relation to the wants and nature of man that they do to-day. They served then, as now, as money in trade, and were regarded as the most desirable of all kinds of property to hold. In every period of history their possessor has always been able to purchase whatever a people had among whom he might happen to be cast, whether civilized or savage. No other articles of property have a similar power; for with the exception of the precious metals, what is highly prized by one people is often little valued by another. But in the desire to possess gold and silver, in this *auri sacra fames* all nations and races, barbarous and civilized, Asiatic, African, European, and American,

meet on the same plane. To all they have an attractiveness equal in durability and intensity; and among all they render those who possess them masters of the property and services of those who do not.

It is in overlooking this original attractiveness which the precious metals have for the race that nearly all the errors in monetary science have arisen, and which have rendered it to the present time little better than an unmeaning jargon of words. Gold and silver, it is argued, cannot feed, clothe, or shelter us; they cannot even help in any way to sustain life. How idle, then, to claim for them a greater value than for articles which do. There is no doubt that, in extreme cases, a person would part with untold gold for a morsel of bread or a cup of water, or for a plank to save from drowning; but all such examples are exceptions, not rules. When famine or want threatens, or when political and social disturbances make men distrustful of the future, their first care is to lay in abundant stores, not of food and clothing, but of gold and silver, assured that, provided with these, they can never be long in want, whatever may happen.

Gold and silver then, by the very instincts and passions of the human soul, are natural mediums of exchange. Their use as such preceded all convention or agreement, just as the love of society preceded social and political organizations. The first lump of gold dug from the earth rendered its lucky finder an object of general envy. Each one of his companions, by offering whatever he possessed in exchange, would seek to become the owner of the coveted prize. All that convention or agreement could do in the matter would be to devise some mode by which it should bear an impress denoting its weight and fineness, and consequently its value. The degree of such value would of course depend, as does that of every article of merchandise, upon the cost of production, which, as a rule, is the inexorable standard of all values.

The universal attractiveness of gold and silver depends upon their beauty and their almost infinite adaptability to works of taste and art. Of all values, those are most prized that minister in the highest degree to our sense of the beautiful. The value of gold and silver even often sinks into

insignificance compared with that of the diamond, or of some exquisite piece of painting or sculpture. But such values are exceptional and local, and have none of the attributes of universality and uniformity which gold and silver have maintained, with equal intensity, from the birth of man to the present hour.

Other attributes fitting gold and silver to become mediums of exchange or standards of value are their high relative value; their divisibility without diminishing their value; the capacity of each piece, however minute, to receive an impress denoting its quantity; their durability, and the uniformity of their cost and supply. No other articles whatever, for the want of such subordinate qualities, are fitted to become mediums of exchange, no matter how high may be their relative or positive value.

Gold and silver, consequently, are the natural mediums of exchange. Every producer desires to convert his surplus into them, or into promises to pay them. All contracts, therefore, are taken to be payable in them, whether they contain such provision or not. But as their intervention in the transfers of property is a tax upon industry, one of the first contrivances of commerce was to dispense, as far as possible, with their use by offsetting values — one against the other — by the use of symbols or evidences of property, of which bills of exchange drawn in commerce between nations afford a striking example. A dry-goods merchant in the United States does not, ordinarily, accompany his order on the English manufacturer with its value in gold, but purchases of his neighbor engaged in shipping produce to that country a bill drawn against such shipments. The foreign manufacturer collects the bill and credits his American customer with the amount. The case is reciprocally the same with the purchaser, in England, of American produce. Exchanges made in this manner, which are of the nature of those in kind, dispense with the use of an amount of gold and silver equal to their volume, — effecting, of course, a corresponding saving. Were the exports and imports between the two countries exactly the same in amount, not a dollar in gold would be required in the commerce between them. But while they are nearly uniform for a series

of years, it seldom happens that they are exactly balanced for any one year. The difference, whatever it may be, must be paid in gold and silver, which, in such cases, moves rather as capital than as currency.

Bills of exchange, consequently, drawn against shipments of merchandise, are the mediums of exchange, or currency, in international commerce. The advantages resulting from the elimination of a corresponding amount of capital in the form of coin from unproductive employment are too palpable and well understood to require further illustration. Were gold and silver present in every transaction between nations, the vastly increased amount of capital required would abridge commerce to a mere fraction of its present volume. The progress made in mechanic arts, as well as in the operations of commerce, and which is the distinguishing feature of the present age, consists either in abridging entirely cumbersome and expensive processes, or in superseding them by others more cheap, simple, and expeditious.

The exchanges between distant points of the same country are effected in precisely the same manner as those between different nations. The value of the commerce between Chicago and New York is only second to that between New York and Liverpool. The bills mutually drawn against shipments of produce on the one side and merchandise on the other so nearly balance each other that the small amount of money used is lost sight of in the magnitude of the transactions.

Now bills, whether foreign or domestic, drawn against sales or shipments of merchandise, are not adapted to local exchanges, in other words, to retail trade. A similar end is, however, reached by another process, — by an issue by the holders of such bills of their notes, of denominations suited to nearly every exchange, no matter how small may be the amount involved. As a rule the issue of such notes has been restricted by law to corporate institutions, — to banks, — although there is no other reason for this than that such institutions are presumed to have no business but the lending of capital, while individuals are generally engaged in other transactions which might imperil the safety of the notes they might issue.

When the capital of a bank, consisting of gold and silver, is

first loaned, its borrowers, as a rule, would prefer, instead of having the specie counted out to them, to receive the notes of the bank, or credits on its books, entitling them, or any person into whose hands such notes or credits might fall, to draw the coin at will, the bank in the mean time assuming the charge and risk of safe-keeping. Such notes or credits, of course, derive their value solely from the values which they represent. They are symbols or title-deeds to the capital of the bank, and empower their holder to make partition of the same and convert to his own use a portion corresponding in amount to the nominal value of the notes and credits he may hold.

As the capital was drawn its notes and credits would be taken in to an equal extent. Such capital would then be represented by the bills of borrowers, possessing precisely the same value as the coin from which they were taken. Their payments, unless the bank continued to make new loans, would return its capital in its original form.

If the bills receivable of a bank equal in value the coin for which they were taken, it follows that notes and credits issued against such bills possess the same value as when issued against coin. In the one case the capital they represent is in the vaults of the bank; in the other, the same capital is in the hands of the borrowers, who are using it in the prosecution of their various industries, and will repay it when these are completed, and their products, such as food, clothing, and the like, — the equivalent of coin measured by the standard of cost, — have entered into consumption.

As bills drawn in foreign commerce, by transferring by delivery the merchandise they represent, or the proceeds of the same after it is converted into money, serve as currency between nations; and as they are discharged or paid, by mutual offset, in the clearing-house of the world, London, and without the interposition of coin, except in the payment of balances that may be found against the debtor nation, — so the notes and credits of banks, representing domestic bills drawn against merchandise, and entitling their holder to a proportionable part of the same, serve as a domestic or local currency, of a nature almost precisely the same as bills between nations, or between distant portions of the same country. They rep

resent, in denominations suited to the means and wants of all, the merchandise of a community entering into consumption. They are substantially certificates of, or tickets to, such merchandise, and differ from commercial bills chiefly in being payable on demand. To carry the illustration still further, we may suppose each interest or industry of society to be represented by its bank, the notes and credits of which measure the amount and value of the merchandise each has for sale. It is easy to see that the notes and credits of all would be the most convenient instruments possible for the distribution of the merchandise which each interest possessed. If that which any party happened to hold did not represent the exact article he needed, he would have no difficulty in exchanging them for such as did. Were all the various interests in equilibrium, that is, if each produced values equal to those it consumed, then the exchanges of merchandise between them would be wholly made by the use of such symbols and without the intervention of a dollar in coin. Should there be an excess of notes and credits over the salable merchandise of any interest, the delinquent would have to make good the deficit in coin (which is alike currency and capital) as the measure or equivalent of the merchandise which its notes and credits represented, but which it did not possess, or for which it could find no sale. Coin, therefore (so perfect have become the other instruments and contrivances for effecting exchanges), is seldom used but as capital in payment of balances; and as the industries of society are nearly in equilibrium, only a very small amount interposes either in the foreign or domestic trade. The amount used only measures the aberrations of such commerce from a healthy and normal condition. The balances, for example, at the New York Clearing-House, when the currency was on a specie basis, at which settlements are made for the city banks, did not exceed one fiftieth part of the whole volume of its transactions.

As the payment to the bank of its bills receivable will supply the means for new loans, it very properly makes loans by an issue of its notes and credits in anticipation of their payment. An individual having his means wholly in good bills could enter upon an undertaking with as much safety as if he had

the entire amount of his proposed outlay in ready money. His expenditures would necessarily be distributed over a considerable period of time, and would be seasonably met by the maturity of his bills, while such as remained at any time unpaid would be drawing interest. As far as their expenditures are concerned, borrowers at a bank are in a position precisely similar. They want capital, to be expended, gradually, in their various enterprises, and will draw it only as wanted. The bank, in making loans in anticipation of the payment of its bills, says, in effect, to the party seeking to borrow: "We may not have on hand the whole amount of money you require, but we have bills upon which we have made loans, which will probably fall due before you will have occasion to draw any considerable amount of the sum you wish to borrow. We will, therefore, issue you our notes or credits for the sum you want, and hold the proceeds of such bills to meet your checks upon us. As it is well known that the bank, by the payment of its bills, will be in possession of such capital by the time the notes and credits so issued will, in the ordinary course of business, be presented for payment, they will be as readily taken, and perform, as currency, the same function, as if issued against capital in actual possession. The notes and credits issued in anticipation of the payment of its outstanding bills will naturally fall into the hands of their makers, and be used by them in their payments. On the payment of such bills a corresponding portion of the notes and credits of the bank issued against them will be taken in. Its liabilities will be so far retired, while its capital will then be represented by the bills of the new borrowers. In this way the capital of a bank, wholly out of its actual possession, may be loaned and transferred from one borrower to another an indefinite number of times, without the interposition on either side, except when it was first drawn, of a dollar in coin.

Were the amount of notes and credits issued by banks restricted to that of their coin actually in hand, its withdrawal would wholly retire them, leaving the public to the use of a metallic currrency alone. Payments in such case would have to be in coin, and would take from circulation the identical capital loaned, and would in many cases involve the winding

up of the industries it had set in motion. But the notes and credits of a bank, issued in excess of its coin in hand, or upon its deposits, or upon its bills soon to mature, serve, as has been shown, as the instruments of payment equally with specie. Their use, therefore, in such capacity, allows the whole amount of the loanable capital of a community to remain constantly and in equal volume in the hands of producers, and new industries to be entered upon in anticipation of the closing up of old ones. So far, consequently, as the loans of banks are made (within proper limits) in excess of the coin they possess, they are equivalent to the creation of a corresponding amount of new capital.

It is from the want of proper attention to the operations of a bank that most of the errors in banking and monetary science have arisen. A superficial observer sees the loans of a bank to be $ 1,000,000, upon a capital, perhaps, of $ 500,000, and on a specie reserve in hand of only $ 100,000, and consequently infers, with Mr. Chase, that its notes and credits are "debt without interest made into money"; that "the circulating notes cost nothing but the expense of their issue, and being loaned at interest form a highly accumulative species of property."

It is certain that banks derive a substantial advantage in issuing notes and credits in excess of the capital they actually possess. The issuing of such excess is the leading inducement to their formation. There would be no object in organizing them, could they issue notes and credits only against the capital they had in hand. Such capital could be loaned as well without as with banks. But the public gain vastly more than banks by such excess of issue, by having their capital always in use, and in having all the transactions of society — the loaning of money, as well as the transfers of merchandise — effected by the use of symbols, instead of the intervention of actual values. The process described (confined within limits which every prudent business man is competent to prescribe) is a perfectly safe one. A bank, by passing it from one hand to another, never loses control of its capital. Should it be desired at any time to wind it up, its loans have only to be called in. Their payment, no matter who may be their makers, will return its capital in its original form of coin.

As it is inevitable, from the saving effected, that exchanges of property should be made by the use of symbols, and as such symbols form the currency of commerce, it follows that, if its issue were open to all who have capital to lend, the volume of currency would always be in ratio to such capital, — would rise and fall in amount with its constituent. We should then hear no more of the want of a *flexible* currency, — a complaint so justly charged against the present system. When we hear complaints of a want of bills on London, we know that it means, not a want of bills, but of property or merchandise to be drawn against. Who would ever think of going to the government for legislation to increase the amount of such bills? The remedy would be increased production. If the crops were abundant there would be a large supply of them; if deficient, a short supply. The same would be the case with currencies furnished by the banks. If they possessed a large amount of capital in the form of bills drawn against merchandise or produce, they would issue a corresponding amount of notes and credits. The one, by a necessary law, would be in ratio to the other. Want of money, therefore, in common parlance, means simply want of products, of capital. The only remedy — increased production — would be, as in foreign bills, obvious to all.

The essential quality of all currencies is their convertibility into coin; not upon the instant, but in the ordinary course of trade. A sight bill drawn against a shipment of flour from New York to Liverpool could not be paid from the proceeds of the sale of the same as could a sixty-days bill. Yet one is worth just as much as the other, less interest. Instant convertibility of the assets of the strongest banks or individuals is impossible. It means the liquidation, not the continuance, of the industries; not life and progress, but destruction and decay.

The ability of a bank to maintain its capital intact will depend upon the ability of the makers; in other words, upon the character of the property for which their bills were given. Bills given for merchandise entering into constant and general use, such as food, clothing, and the like, are almost certain to be paid, as the purchase and consumption of the property they

represent is not a matter of choice, but of necessity. What is daily consumed must be daily paid for. There is, on the other hand, no certainty whatever that other kinds of property, however indispensable, such as houses and lands, to take a familiar illustration, can, within a given period, be sold for ready money. The purchaser of such property may have to wait for months, or years even, if he would avoid sacrificing it, before being able to find a party who will take it off his hands; and consequently, unless he has other means more easily convertible, may be utterly unable to pay the bills given as the purchase-money. On the other hand, the daily and uniform purchase of food and clothing does not depend upon fancy or caprice, but upon the means of consumers, which, on an average, always exceed their immediate wants. Banks, therefore, in discounting such bills, run hardly any other risk than the integrity and capacity of their makers. It is the office of the latter to distribute such merchandise to consumers, and to collect and pay over the proceeds of the same. The proper office of the bank, in fact its only legitimate function, is to make producers in advance, so that they may not be compelled to suspend operations to await the slow process of the sale and distribution of their merchandise. It is only when it confines itself to such transactions, that is, when it confines its loans to business paper, that it is conducting its operations in a manner that can by any possibility return its capital to it in the original loanable form.

It is for the reason stated that banks whose capital has consisted of real estate, public securities, or, in fact, of any other kind of property than gold and silver, or of the promises, speedily to mature, of solvent parties to pay them, and given for merchandise of equivalent value, entering speedily into consumption, always have proved and always will prove disastrous failures. Neither real estate nor public securities can be eaten, drunk, or worn, or exported to foreign countries (except the latter to a limited extent), and consequently cannot be relied upon with any degree of certainty to pay a debt presently maturing at home or abroad. The means of a bank must be in such form as to be convertible, on demand, into the universal currency of nations, into that which will, by direct exchange, pur-

chase tea in China, coffee in Brazil, sugar in Cuba, iron in England, and wines and silks in France, as well as articles of domestic production. Such conversion can be speedily made only when the notes and credits issued represent property of a kind that will be speedily consumed or exchanged for coin by the laws of trade, and the necessity to support existence; or when, by being salable in foreign as well as domestic markets, it can supply bills wherewith to meet any foreign indebtedness that may have been created.

Time is another important element to be considered, if a bank would preserve its capital in a loanable form. The borrower should be always compelled, by the early maturity of his bills, to keep pay-day constantly in view, otherwise he will be liable to misapply or squander the proceeds of his loan. Suppose a loan to be made to a manufacturer for twelve months, to enable him to purchase material to be used in his business. The chances would be that he would employ the greater portion of the intermediate time in pushing his enterprise, without sufficient reference to what other manufacturers were doing, or to the wants or tastes of the public; so that when the day of payment came round his means would consist of a large amount of unsalable merchandise to represent the capital borrowed. On the other hand, loans made on short time compel the borrower to shape his industries and enterprises so that his products will be suited to the market, and find a ready sale. Short loans enforce industry and thrift and competent management; while long ones are almost certain to involve the bank in loss, or convert its loanable capital into fixed and often unsalable property.

Money, whether in the form of coin or notes and credits of banks, is the instrument of expenditure. So long as it consists of coin, or so long as it is the symbol of property or merchandise about to enter into consumption, there can never, as a rule, be an excess of it, as it is only the measure of the proper means of consumption. Such means should be property of one kind or another, representing the actual earnings of a people. These are, and always will be, in a great measure, consumed as they are produced or acquired. Each generation is entitled to the fruits of its own labor and enterprise.

In the most thrifty communities the actual savings over expenditures, from year to year, bear only an insignificant ratio to the whole amount actually produced. But no system should be tolerated that will enable a community to spend its accumulated capital, — the savings of previous years, or any considerable portion thereof. Now, bank currency issued in discounting a note given for real estate or securities will have the same purchasing power as currency issued in discounting a note given for merchandise, — flour, for example. In the one case the value of the land which represents past acquisitions, and is a part of the fixed capital of the country, and which should be the basis of further production, is spent; in the other, that which has been produced for consumption, which the former must sell to provide the ordinary means of support. The same rule is applicable to a currency issued upon public securities. It is simply the means of spending such securities, which, like real estate, are accumulated capital.

When currency is issued without anything behind it, it works a still greater evil. It is a debt to an equal amount, but being in the form of money, — of instruments of expenditure in excess of means, — its issue causes an increase of price in ratio to its amount, so that before it is retired it has cost the community issuing it at least twice, and if continued for any length of time many times, its amount, as prices as a rule will be maintained so long as "debt without interest made into money" continues. Tampering with the currency, therefore, should be treated as one of the gravest offences that can be committed against society. It destroys all proper relation between cost and price, between service and reward, subjects industry and enterprise to all the hazard of speculation, and saps to its foundation the moral as well as the physical well-being of society.

The usual solvency of currencies naturally creates a presumption in favor of such issues. Such presumption is constantly taken advantage of by parties who issue them, not as instruments by which capital is loaned, but for the purpose of supplying the lack of it. This great evil often goes far to neutralize the advantages of their use. The imposition on the

public of currencies, the evidence of debt instead of capital, is all the more easy from the fact that they are supposed to derive no small portion of their value from bearing the insignia and from being issued under the authority of government. Indeed, the opinion seems to be almost universal, that money can be the creation of government. There never was a greater or more fatal error. The value of all currencies depend upon that of the article used or symbolized. In providing a metallic currency, the functions of government are limited to the declaration that a given number of pennyweights of metal shall be called a dollar, and to the affixing of such declaration to the coin. The value of the metal composing such coin is in no way affected by this process, but must always depend upon its intrinsic value, — upon cost.

Government has no more function for the creation and management of a currency than it has for conducting any other commercial enterprise. So far as it has capital to loan, and no further, may it issue symbols, notes, or credits against it. But no government has money to loan. Its proper function, consequently, in the matter of a currency, is to provide conditions for the security and protection of the public. Its office is supervisory, not creative. Even in the exercise of its proper powers, the less it interferes, except to protect, the better. Worthless currencies are often palmed off upon the public for no other reason than that they are issued by permission of, or under the authority of, government. Currencies issued by individuals or voluntary associations have nothing presumed in their favor. They would be compelled to deserve, to command confidence. Every one would be on his guard. In this, as in all kindred matters, government need have no fear that the public will not take care of themselves.

No speculation is more indulged in than that which relates to the amount of currency required in the operations of a people, — those of the United States, for example. Such a question can no more be answered than can one asking how many bills of exchange, ships, counting-houses, warehouses, or title-deeds to real estate are wanted, — as many as are necessary to effect and record the transactions of society. A community left free will provide a currency, as well as all

other contrivances necessary to carry on its business operations.

Having elucidated the principles upon which all currencies, whether of coin or of symbols, rest, we can now proceed to an intelligible discussion of the currency and banking system of the United States.

As already remarked, the attempt to carry on the vast operations of government caused by the war, through the machinery of the Independent Treasury, was the first capital blunder of the incoming administration, — a blunder to which we owe by far the greater portion of our national debt, with all the evils and entanglements of an irredeemable currency. In demanding coin on his loans, Mr. Chase acted precisely as would a Turkish pasha or a minister of Louis XIV. It was conduct worthy of the Middle Ages, not of the latter part of the nineteenth century. Government did not want the specie of the banks, but the articles which specie would bring, — food, clothing, transportation of the soldiers, munitions of war, and the like. By restricting himself to the specie of the banks, Mr. Chase restricted his means in the ratio that such specie bore to the whole available capital of the country. Had he placed himself in the position of ordinary borrowers, drawing against his loans as in the usual course of business, leaving the use to be made of his drafts to the convenience of the parties into whose hands they might fall, such drafts would not, except in the settlement of balances, have been drawn in coin, but would, as in commercial transactions, fall into the hands of the debtors of the banks, and be used by them in payment of their bills. The whole capital of the country could in this way have been reached by the government, by the use of a currency of symbols, just as well, and far better, than by a currency of debt. The volume of the symbolic currency would always have been in ratio to the available capital of the people ; and in the fervor of patriotism which prevailed at the North, every dollar of this capital was at the disposal of the government.

The first Legal Tender Act was passed February 28, 1862. Mr. Chase earnestly pressed its passage with the legal-tender clause. " The provision," said he in a letter dated January 29,

1862, to Mr. E. G. Spaulding, member of the Committee of Ways and Means, and who had charge of the bill, "making United States notes a *legal tender* has doubtless been well considered by the committee, and their conclusion needs no support from any observations of mine. I think it my duty, however, to say that in respect to *this* provision my reflections have conducted me to the same conclusions they have reached."

Only a short time elapsed after the passage of this bill before the Secretary found himself out of money, and he addressed, on the 7th of June, 1862, an official communication to the Committee of Ways and Means, accompanied by a bill in which he "proposed that authority be given to the Secretary of the Treasury to issue $150,000,000 of United States notes in addition to the issue already authorized, and that these be made a *legal tender* for debts, except interest on loans, and receivable in payment of all loans to the United States, and for all government dues, except duties and interest."

In no single instance, in his communications to Congress, did Mr. Chase express a doubt as to the constitutionality of legal-tender notes. He not only, on every occasion, earnestly pressed such issue, but he declared the use of such notes to be one of the most beneficent acts of his administration. "In his former reports," he said, in his Annual Report for 1863, "the Secretary has stated his convictions, and the grounds of them, respecting the necessity of putting a large part of the debt in the form of United States notes, without interest, and adapted to circulation as money. These convictions remain unchanged, and now seem to be shared in by the people. For the first time in our history has a real approach to a uniform currency been made, and the benefits of it are felt by all. It is a gratification to know that a tribunal so distinguished by the learning and virtues of its members as the Supreme Court of New York has given the sanction of its judgment to the constitutional validity of the law!"

It is well known that in a short time after he ceased to be Secretary of the Treasury Mr. Chase became Chief Justice of the United States; and that (in the case of Knox *v.* Lee, 12 Wallace's Reports) he pronounced all the legal-tender acts

unconstitutional, using in that case the following extraordinary language: —

"It was my fortune at the time that the United States legal-tender clause was inserted in the bill to authorize the issue of United States notes, and received the sanction of Congress, to be charged with the anxious and responsible duties of procuring funds for the prosecution of the war. In no report made by me to Congress was the expedient of making the notes of the United States a legal tender *suggested.*"

Such a direct denial of acts, of one of which, at least, he was the author, and all of which he recommended to Congress and pressed with whatever eloquence and influence he could command, is an example of political profligacy without parallel in the history of this country. It has laid the late Secretary open to the grave charge that his decision in the legal-tender case was influenced by improper motives, and has left an indelible stain upon his memory.

Whatever may have been the competency of government to make its notes legal tender, such action was certainly the most costly and injurious mode that could have been devised for raising money. Gold and silver immediately disappeared from circulation, and, as speedily as possible, took their flight to other lands. In 1860, our exports of coin and bullion amounted to $66,546,239. The imports for the same year were $8,550,135. In 1861, the first year of the war, and while the country remained on a specie basis, the exports were $23,800,810; imports, $46,359,601; showing an immediate reversal in our favor in the current of the precious metals. So long as we had continued on a specie basis, our needs would have drawn largely gold from other countries. The moment we suspended, the current changed against us. The imports of specie in 1862, after we had suspended, were $16,415,012; exports, $36,886,956. Each year the current turned more and more against us, and has continued, till it has drawn not only all our past accumulations, but all the produce of our mines for the past eleven years. During this period our exports of the precious metals have been $723,639,913; our imports, $177,124,546. With the floods of paper money which rushed in to fill the vacuum created by exports of gold, all kinds of property rose in like ratio, so that in the vast operations of the

government, soon reaching thousands of millions, the excess of price paid over cost was undoubtedly threefold greater than the whole amount of legal tender issued. But this is not all. Whoever possessed property of any kind suddenly found himself rich. A spirit of wild speculation seized the whole nation, and for a long time paralyzed the military arm of the government. The taint invaded every department of service. Instead of freely enlisting, as at the outset, soldiers demanded enormous bounties, and then deserted to enlist, for the same reason, in another place. Had the proper financial policy been pursued, we should have presented the glorious spectacle of a people that by the same masterly stroke put down a gigantic rebellion and enfranchised four million slaves, and should have come out of the contest, not only with our power and justice vindicated, but free from the enormous burdens now resting upon us, and with a currency everywhere the equivalent of gold.

Congress, as has been seen, responded immediately to Mr. Chase's request for an issue of legal-tender notes, but not to his plan for a system of national banks. He returned to this subject again in his report for 1862. His scheme, he tells us in that report, "embraced a limited issue of United States notes as a wise expedient for the present time, and as an occasional expedient for future times; and of the organization of banking associations to supply circulation secured by national bonds, and convertible always into United States notes, and, after the resumption of specie payments, into coin. He recommended no paper-money scheme, but, on the contrary, a series of measures looking to a safe and gradual return to gold and silver as the only permanent basis standard and measure of values recognized by the Constitution, between which and an irredeemable paper currency the choice is now to be made. "The Rebellion," he continued, "has brought a great debt upon the nation. It is proposed to use a part of it in such a way that the sense of its burdens may be lost in the experience of its incidental advantages. The issue of United States notes is such a use. The security by national bonds of similar notes furnished by banking institutions is such a use. In these several ways may even such great evils as are brought upon us by the Rebellion be transmuted, by a wise alchemy, into various

forms of utility. The Secretary has endeavored to use this alchemy. With what success the country will judge when time and trial shall have applied to his work their unfailing tests."

As specie was wholly eliminated from his system, as no provision whatever was made for the redemption of the legal-tender notes, such notes being simply promises to pay at the pleasure of the government, and as the only redemption provided for bank-notes was in the notes of the former, the banks not even being required to hold the coin interest received on the bonds deposited as security for the redemption of their notes, but allowed to sell every dollar, — a right of which they availed themselves without exception, tempted by the high premium for gold, — it is difficult to believe that Mr. Chase attached any meaning whatever to the language he was accustomed to use. It is certain that he never grasped a single principle lying at the foundation of monetary science. His stately and flowing rhetoric can only be accounted for by his entire ignorance. Everything was plastic to his touch, to be moulded at will into just such form as suited his fancy or caprice. Such instances are not rare. Men are usually fluent in proportion to their want of knowledge of the subjects they discuss. They have no fetters to their imagination, no unsolved questions over which to pause and reflect, to remain, perhaps, still in doubt.

Another purpose near to Mr. Chase's heart was "to render impossible any great moneyed monopoly." For this purpose he transferred to the central government, to be wielded by a single will, the powers and responsibilities that had previously belonged to thirty-four States, — States differing in political and financial views, and often so antagonistic that no combination whatever was possible between them. Under the system inaugurated by him all the banks now draw their origin from one source. They have a perfect community of interests, and instantly make common cause whenever their rights and privileges are attacked. What touches one touches all. One can hardly estimate the vastness of the power that two thousand institutions, having a capital of $500,000,000, with all their immense following of stockholders and officers,

can wield, — all intelligent and all moved by one instinct. We do not impugn their motives or integrity, but it would be folly to suppose that the preservation of their own privileges will not be their first and constant care. It will be found, if we mistake not, that their opposition will be one of the most potent obstacles to the restoration of the finances of the country.

If monopoly means privileges conferred on a class, — privileges which forbid competition and which entitle those holding them to draw enormous revenues from the people without any equivalent in return, — then the greatest and most odious monopoly ever created is the present system of national banks. It is simply a legalized system of usury. The government pays one rate, — interest on its bonds in gold. The borrower another on the notes secured by these bonds. The theory was that the notes of the banks would be redeemed from time to time in the United States notes. But such redemptions are never made, for the very good reason that the thing to be redeemed has a higher value than that which is to redeem it. Government is equally behind both issues. Should it become bankrupt, so as not to be able to pay a dollar, still the bank-notes would be worth something, as all the institutions issuing them have more or less capital over and above the bonds deposited at Washington. This double interest on the same capital, together with loans on their deposits, has enabled the banks to earn, on an average, at least fifteen per cent net, and to pay in dividends at least ten per cent annually. These institutions have, in fact, pretty nearly eaten up the profits of all other kinds of business. Government pays them an annual gratuity of $ 24,000,000 in gold, and has paid, in the aggregate, in the eleven years they have been in operation, about $ 250,000,000 in gold, for which not a dollar's equivalent has been returned. So much for Mr. Chase's grand measure to secure to the people the advantages of " debt without interest made into money," to rescue them from the perils and oppressions of a vast moneyed monopoly, and to provide a sure and easy way for return to specie payments!

We have commented at length upon Mr. Chase's public career for the purpose of illustrating the ignorance, audacity,

and reckless levity with which, in this country, affairs of the greatest moment are often conducted. There seems in some directions to be not only no statesmanship, but no capacity to learn and apply some of the simplest truths in political economy. This, perhaps, is not so strange when we consider that, for a long period previous to the war, the receipts and disbursements of the general government were on a very limited scale, and the currency was supplied, as it always should be, in great measure, by State and local institutions. The Federal government was almost without functions, except the management of its foreign affairs. The machine of state had run so smoothly that we were hardly conscious of its existence. We made no provision for the future, because we felt no need in the present. The war which burst upon us in all its gigantic proportions found us wholly untrained and unprepared. There was another reason, lying deeper still. It is natural in a country like our own, so boundless and so rich, where all the articulations of society are perfectly free, and where such freedom has produced unexampled results in our splendid cities, in our magnificent system of public works, which embraces a railroad mileage equal to that of all the rest of the world, and in the rapidity with which a vast continent has been occupied, subdued, and made the abode of a higher civilization than has yet been reached, that we should become intoxicated with our success, and imagine our institutions and methods the summit of human achievement, with nothing left for us to copy or to learn. We are likely, speedily, to get over this delusion, and to discover that every nation must, through its own bitter experience, find the right way, and that we are most rotten where we fancied ourselves the most secure. We have for years been hugging to our bosoms a financial system false in every grain. The corruption which exists in our great cities demonstrates free government in them — in New York particularly — to be a dead failure, and that all corporate life in this country is more or less tainted. We have, however, no fears as to the final result. When our people become fairly aroused to the existence of any great evil, either in their political or financial condition, they will in the end display the same good sense and capacity in its correction that they have displayed in the management of their private affairs.

The entire absence of any adequate provision for the redemption of our currency is what renders its manipulation a matter of such ease, and subjects all kinds of business to violent fluctuations, against which it is impossible to guard. In their eagerness to lend every dollar upon which they can lay their hands, the banks are always running under bare poles. For the greater part of the year the sudden withdrawal from them of $5,000,000 of greenbacks is felt throughout the country. There is nothing whatever to take their place. Money, consequently, can at any time be made plenty or scarce by a knot of speculators, who in this way hold in their hands all the material interests of the country. Jay Gould, contemptible as he is, by locking or threatening to lock up a few millions, has often sent terror into the stoutest hearts. It is the old story of the gnat and the lion. Upon a specie basis all such tricks would be impossible. There would then be probably $500,000,000 of specie in the country. This vast sum, held chiefly in the pockets of the people, would constitute at all times a reserve fund always available for any emergency. Should an attempt be made to withdraw currency from the banks, gold, in the form of reserves in the hands of the people, would immediately flow in to take its place. The impossibility of accomplishing the object would prevent all attempts to create an artificial stringency. With a specie basis there is always a double currency: one of symbols, by which, no matter how much gold there may be in a country, the greater part of its operations will always be carried on; the other of gold, in which a considerable portion of its accumulations will always be held. It is only by the accumulation of such reserve that we can hope for any relief or any steadiness in the financial condition of the country.

As our currency is "debt without interest made into money," payment of debt would retire it. Such payment would seem a comparatively easy measure. We have, for many years past, retired $100,000,000 of bonds annually without any disturbance to the business of the country. But debt made into money is very different from debt in other forms. It is the medium of exchange, a measure of values, the machinery by which the business of a community is carried on. As it is less

costly than symbolic or specie currencies, it has supplanted them altogether. It is the only currency we have, and our people cannot part with it without being forced to make exchanges in kind,—in other words, being remitted to a state of barbarism. Any plan, therefore, that assumes to provide for the retirement of our present legal-tender notes must at the same time provide another currency to take their place, and here comes in the chief difficulty in the case. How can we bring a more costly currency into use, when the one we have will accomplish precisely the same object as far as the payment of debts is concerned?

The idea almost universally prevails that this debased and depreciated currency can be brought to the specie standard without retiring it or providing any means therefor. "A people," it is argued, "must have a certain amount of currency for their exchanges. If there be an excess, it will be at a discount; if there be only the amount required, then it will go to par. The true remedy in our case is to await the growth of the country, which silently but surely will soon absorb all the currency, and bring it in this way up to the standard of gold."

It would be easy to estimate the value of a currency of debt, not legal tender. It would equal that of gold, *less* the interest for the time it had to run. A plain note without interest due in one year would be worth six per cent *less* than one bearing interest at that rate. The amount of such notes outstanding would make no difference. If there were only one in a population of 40,000,000, it would be worth no more than if there were millions of them. So long as the public were not compelled to receive them, they would take them only at their value. Now the mere declaration of the government that its notes shall be legal tender adds nothing to their intrinsic worth. They are paid no sooner, nor do they bear interest, for such a declaration. If government enacts that the commerce and trade of the country shall be carried on by notes having a specified *water-mark*, these notes would command a higher price in the market than notes of the same tenor but without such mark, just as ships to which was given, by law, the preference in the transportation of merchandise from New York to

New Orleans would command a higher price than ships to which such preference was refused. It is a monopoly, to be sure, but the shippers must use them or be content to do nothing. The owners of the ships would reap the advantage, and the people, the producers and consumers, would suffer a corresponding loss. What one party gained the others would lose, and a great deal more, from the interference with the freedom of trade, and in the restraints and discouragement that would be put upon all kinds of industry and enterprise.

All this is very plain. Legislation can do nothing to create the value of a currency. It may prescribe certain uses for certain things, and in this way create a necessity for them, but this increase of price is bounded by the extent of territory over which it has jurisdiction. It makes no difference with a Liverpool merchant (except to send to this country for sale) whether a United States note offered him be legal tender or not. His first inquiry would be, "What can I do with it? where can I get the money it calls for?" One kind will pay his debt as well as another. If he took either, it would be at a rate that would make him good by its sale or by waiting its maturity. No matter how nearly the notes might approach gold in the New York market, he would sell his merchandise at a less price for the latter, as the taking of the former would always involve another transaction — sale and conversion of the note — before he could get the kind of money that would meet his case. In foreign markets, consequently, "debt of the United States without interest made into money" must always be at a discount. If at a discount there, it will be at a discount here. If gold will pay for more abroad than United States notes, it will pay for more at home. The foreign market will always control the domestic one. Legal-tender notes, therefore, can never be brought to par anywhere unless they can be exchanged by the holder, instantly and at all times, for gold.

The absurd notions that debt without interest can equal in value debt with interest, and that a promise without interest to pay gold at a certain day can be as valuable as gold in hand, are so ingrained in the popular mind as to render necessary these demonstrations, which ought to be as superfluous as teaching

the alphabet to adults. The plans to accomplish this object are of a piece with the notions themselves. The one most likely to be urged at the present session of Congress is that of Mr. John Sherman, chairman of the Senate Committee on Finance, fully detailed in that paper by the correspondent of the New York Times, under date of the 19th of November, 1873: —

"Mr. Sherman," says the correspondent, "is in favor of a law which will authorize a convertible five-per-cent United States bond with the right in the government to an alternative redemption either in coin or bonds. Mr. Sherman believes that if, as long ago as 1868, when the subject was first proposed, Congress had authorized United States notes to be received for five-per-cent bonds at par, we should have long since been at specie payments. The notes, when received, could be paid out again to meet current expenses and for the purchase of bonds. It would be a similar reissue of notes to that which is practised by the Bank of England, our circulation being fixed at four hundred millions. In this way, when our five-per-cent bonds were worth par in gold, we should be at a specie standard. The increasing credit of the country would have brought currency to a par with gold, exactly as it has brought all forms of bonds to par, and even above par, in gold. Whether the currency would be contracted would depend entirely upon the amount of currency necessary to conduct the business of the country. It seems certain, in view of the commercial conditions of the country, that all the currency now outstanding, and even four hundred millions, could be maintained in circulation on a specie standard. In view of the large reserves that are needed by the banks, and of the gold reserve of the Treasury, and of the confidence of the people in the credit of the government, it is improbable that, when the currency should have been brought to par through the advance of this new convertible bond, any considerable sum, except in possible case of panic, would be presented for redemption. . . .

"Mr. Sherman is confident that such a plan would secure the elasticity of the currency which has so long been desired, and would provide for specie payments without commercial embarrassments. . . .

"In connection with this plan, Mr. Sherman proposes no contraction of the currency. Indeed, he would seem to waive the legal difference of opinion which has existed in the Senate Committee on Finance with regard to the amount of outstanding legal-tender notes, and in connection with the law authorizing the issue of this new five-per-cent convertible bond he would declare that the amount of the

legal-tender circulation should never exceed four hundred millions of dollars. He would make it lawful for the Secretary of the Treasury to issue the so-called forty-four millions legal-tender reserve, but would leave it unissued except as necessities might require."

We had supposed magic to be an art "inhibited and out of date." We confess to our mistake, for nothing short of magic — of the working of unseen agencies — could accomplish what Mr. Sherman proposes. These agencies are to be always present to inspire the government with the beneficent purpose of paying out at all times to its creditors just such money as they wish to receive; and at the same time to inspire the creditors with a similar beneficent purpose of receiving, indifferently, just that kind which suits the convenience of government to pay, — whether it consists of debt, never perhaps to be paid, or the bright shining and clear ringing coin. What a picture of perfect society is here presented! — a society in which governor and governed are always eager each to sacrifice itself on the altar of the other's good. The intercourse between them is a never-ending round of courteous "salaams," with, "Sir, please take the precedence"; or, in Oriental phrase, and with graceful and expressive wave of the hand, "All that you see is yours." That nothing might mar this delightful picture, the currency is to be fixed at the exact maximum of $400,000,000. Between this amount and the minimum that would be needed in dull times there would be, like the tides, an eternal ebb and flow. If money happened to be too plentiful to command a fair rate of interest in the open market, then the government would kindly step in and pay such interest by issuing its bonds therefor. If scarce, then it would return this money to the needy holders of the bonds, and in this way speedily fill up the vacuum. The wind would always be tempered to the shorn lamb. Our currency would always be at par, always be flexible, — just enough and never too much; and, better than all, it would not, for the whole $400,000,000, cost the country a penny, except the expense of turning the spit!

We are a great country! Our territories extend from the source of the Father of Waters to its mouth; from the cold of the frozen circle to the burning heats of the torrid zone; from

the Atlantic to the Pacific Ocean. On one shore, we salute the rising sun; on the other, we catch its latest beams. These boundaries embrace 3,603,884 square miles, — 300,000 miles more than the whole area of Europe. Within them is every product known to man; a wealth in the precious metals that figures cannot count; rivers that could their venue be changed would reach from the British Channel to the Sea of Okhotsk; lakes in which England itself would form hardly a respectable islet; waterfalls which would have shamed Greece and Rome in their palmiest days; mountains that make Ossa a wart; and a people, — the *Coming Race!* Will any one have the hardihood to say that the promises, to the amount of only $400,000,000, without interest, and payable at a distant day, of such a people, backed by such illimitable resources, are not worth their face in paltry gold? Certainly it argues great presumption to differ from so many millions. Though silenced by the assembled wisdom of the past, Galileo muttered, "It still moves"; and we must be allowed to mutter our disbelief that something can be made out of nothing, or that a promise never to mature, and without interest, to pay gold, can ever be made equal in value to gold in hand.

The plan of Mr. Boutwell, late Secretary of the Treasury and now Senator in Congress, differs somewhat from that of Mr. Sherman. We prefer to let him state it in his own language.

"There are," said Mr. Boutwell in his Annual Report for 1872, "two efficient and certain ways of placing the country in a condition where specie and paper will possess the same commercial value. By diminishing the amount of paper in circulation, the difference between the commercial value of paper and coin will diminish, and by pursuing this policy the difference will disappear altogether.

"All legislation limited in its operation to the paper issues of the banks and of the government, whether bearing interest or not, and which shall tend to diminish the market value of coin, will be found, on analysis, to contain a plan for contracting the value of paper currency, and all legislation so limited which does not contain such plan will prove ineffectual.

"Accepting this proposition, and believing that the country is not prepared to sustain the policy of contraction, it only remains for me

to consider the means by which the value of the currency may be improved.

"The basis of a policy of improvement must be found in a sturdy refusal to add to the paper in circulation until it is of the same value, substantially, as coin. This being accepted as the settled purpose of the country, there can be no permanent increase of the difference between paper and coin, and an opportunity will be given for the influence of natural causes tending on the whole to a better financial condition.

"We may count, first, among these the increase of population and its distribution over new fields of business. Secondly, in the South especially the number of persons having property and using and holding money will increase. Next we may anticipate a more general use of paper in Texas and the Pacific States, by which, practically, for the rest of the country, the volume of the currency will be diminished and the quantity of coin increased, — two facts tending to produce an equality of value.

"The influences of these natural causes will be counteracted in some degree by the increasing facility for the transfer of money from one point to another, and the greater use of bank checks and certificates of deposit. The rapid transit of merchandise in bringing the period of consumption nearer to the time of production is another agency of the same sort. Giving to these views their full weight, I am prepared to say that the experience of the last three years coincides with the best judgment I can form, and warrants the opinion that, under the influence of existing natural causes, our financial condition will gradually improve. . . . .

"I anticipate, also, that the burdens of assumption will rest upon the government. There are now more than nineteen hundred banks in the country, and I cannot imagine a condition of things so favorable for a period of years as will enable them at all times to redeem their notes in specie only. Without proceeding to the discussion of the subject in detail, I think all will have been gained of value when the treasury shall be prepared to pay the demand-notes of the government in coin, and the banks shall be prepared to pay their notes either in coin or in legal-tender notes; and then our good fortune will clearly appear in this, that our paper currency is not exclusively of national bank-notes, nor exclusively of United States notes."

It is unnecessary further to dwell upon the *absorption* theory which Mr. Boutwell, in common with so many distinguished statesmen and financiers, holds. Neither will our space allow

us to enter upon the new field he opens before us in his report, and discuss the existence or extent of those "counteracting influences to an equalization of currency and gold which exist in the increased facility for the transfers of money from one point to another; in the greater use of bank checks and certificates of déposit, and in the more rapid transit of merchandise, bringing the period of its consumption nearer to the time of its production." The extent of these "counteracting" influences, however potent they may be, can, fortunately, be easily tested by the enactment of a law which shall forbid altogether the use of checks and certificates of deposit, and which shall prohibit money to move from point to point at a rate more rapid than twenty miles, or merchandise at a more rapid rate than ten miles, each day. As no time should be lost in our present situation, we suggest that Mr. Boutwell, during the present Congress, bring in a bill with provisions which shall test the correctness of his views. If we do not fully coincide with him as to the existence or the extent of the "counteracting influences" urged by him as opposing the recovery of the country, we are most happy to concur with him in his opinion that "much will be gained when the Treasury shall be prepared to pay the demand-notes of the government in coin, and the banks shall be prepared to pay their notes entire, either in coin or legal-tender notes." But when such a happy day shall come, we do not now see the reason that we shall then have to rejoice "that our paper currency is not exclusively of national bank-notes, nor exclusively of United States notes."

Another mode of retiring the currency is that proposed by Mr. Sumner, and is what may be termed the *squeezing* process. It provides, to supply the means of retiring the plain legal-tenders, that the government shall issue compound-interest legal-tenders payable in three years; the interest, in gold, to be payable at their maturity. These notes when first issued will, it is assumed, go into circulation, and for a time take the place of the plain ones that have been retired. As the interest accrues they will gradually be taken out of circulation, and the currency retired in like ratio.

It is a sufficient objection to this plan that it covers only one half the ground. It seeks to retire our currency without any

steps for the creation of another in its place. Were Mr. Sumner's bill to become a law, the public would be indifferent till the pressure came, when it would be too late, in the disturbance and disorganization which would follow, to take any such steps; so that when the interest notes fell due, the country would be in a much more unfavorable position to enter upon the work of resumption than when they were issued. An inadequate attempt which is certain to end in disaster and defeat is much worse than none at all.

Such are three methods proposed for the resumption of payments. They are, however, the epitome of the whole, whose name is legion. The distinguished position of these gentlemen entitles us to consider their views as the most advanced thought yet reached in this country upon this subject. That they are utterly inadequate and futile has, we think, been fully shown. It is a subject the crust of which not a member of Congress or of the government seems to have penetrated. Even the history of other countries has been wholly neglected, — histories which, if properly studied, would have thrown abundant light upon our condition, and indicated the way out of the difficulties that surround us.

The precedent that comes nearest to our case is to be found in the financial experience of England. From the accession of the Stuart dynasty, the coins which had been roughly executed by the shears and hammer had, by constant "clipping," come to be reduced nearly one half in weight and value. As they still remained legal tender at their nominal value, they worked an evil so serious as to threaten the disorganization of society. A remedy was sought by milling the edges of the coins, by which clipping was in a great measure prevented. But no matter how fast the mint worked, or how fast the milled pieces came forth, the latter obstinately refused to go into circulation alongside the debased pieces. They were immediately melted down, or transported to other countries, so that no progress whatever was made in correcting an evil which had wellnigh become insupportable.

"The politicians of that age," says Macaulay, in his graphic picture of it, "marvelled exceedingly that everybody should be so perverse

as to use light money in preference to good money. In other words, they marvelled that nobody chose to pay twelve ounces of silver when ten ounces would serve the turn. The horse at the Tower still paced his rounds; fresh wagon-loads of choice money still came forth from the mill; and still it vanished as fast as it appeared. Great masses were melted down; great masses were exported; great masses were hoarded; but scarcely one new piece was found in the till of the shop or in the leathern bag which the farmer carried home from the cattle-fair. In the receipts and payments of the exchequer the milled money did not exceed ten shillings in the hundred pounds. A writer of that age mentions the case of a merchant who in the sum of thirty-four pounds received only a single half-crown in milled silver.

"The evils produced by this state of the currency were not such as have generally been thought worthy to occupy a prominent place in history. Yet it may well be doubted whether all the misery which had been inflicted on the English nation in a quarter of a century by bad kings, bad ministers, bad Parliaments, and bad judges was equal to the misery caused in a single year by bad crowns and bad shillings. Those events which furnish the best themes for pathetic or indignant eloquence are not always those which most affect the happiness of the great body of the people. The misgovernment of Charles and James, gross as it had been, had not prevented the common business of life from going steadily and prosperously on. While the honor and independence of the state were sold to a foreign power, while chartered rights were invaded, while fundamental laws were violated, hundreds of thousands of quiet, honest, and industrious families labored and traded, ate their meals, and lay down to rest, in comfort and security. Whether Whigs or Tories, Protestants or Jesuits, were uppermost, the grazier drove his beasts to market, the grocer weighed out his currants, the draper measured out his broadcloth, the hum of buyers and sellers was as loud as ever in the towns; the harvest-home was celebrated as joyously as ever in the hamlets, the cream overflowed the pails of Cheshire, the apple-juice foamed in the presses of Herefordshire, the piles of crockery glowed in the furnaces of the Trent, and the barrows of coal rolled fast along the timber railways of the Tyne. But when the great instrument of exchange became thoroughly deranged, all trade, all industry, were smitten as with a palsy.

"Since the Revolution the state of the currency had been repeatedly discussed in Parliament. In 1689 a committee of the Commons had been appointed to investigate the subject, but had

made no report. In 1690 another committee had reported that immense quantities of silver were carried out of the country by Jews, who, it was said, would do anything for profit. Schemes were formed for encouraging the importation and discouraging the exportation of the precious metals. One foolish bill after another was brought in and dropped. At length, in the beginning of the year 1695, the question assumed so serious an aspect that the houses applied themselves to it in earnest. The only practical result of their deliberations, however, was a new penal law, which, it was hoped, would prevent the clipping of the hammered coin and the melting and exporting of the milled coin. It was enacted that every person who informed against a clipper should be entitled to a reward of forty pounds; that every clipper who informed against two clippers should be entitled to a pardon; and that whoever should be found in possession of silver filings or parings should be burned in the cheek with a red-hot iron. Certain officers were employed to search for bullion. If bullion were found in a house or on board of a ship, the burden of proving that it had never been part of the money of the realm was thrown on the owner. If he failed in making out a satisfactory account of every ingot, he was liable to severe penalties. This act was, as might have been expected, altogether ineffective. During the following summer and autumn the coin went on dwindling, and the cry of distress from every county in the realm became louder and more piercing.

"But happily for England there were among her rulers some who clearly perceived that it was not by halters and branding-irons that her decaying industry and commerce could be restored to health. The state of the currency had during some time occupied the serious attention of four eminent men, closely connected by public and private ties. Two of them were politicians who had never, in the midst of official and parliamentary business, ceased to love and honor philosophy; and two were philosophers in whom habits of abstruse meditation had not impaired the homely good sense without which even genius is mischievous in politics. Never had there been an occasion which more urgently required both practical and speculative abilities; and never had the world seen the highest practical and the highest speculative abilities united in an alliance so close, so harmonious, and so honorable as that which bound Somers and Montague to Locke and Newton.

"In whatever way the restoration of the coin might be effected, great sacrifices must be made, either by the whole community or by a part of the community. And to call for such sacrifices at a time

when the nation was at war, and was already paying taxes such as ten years before no financier would have thought it possible to raise, was undoubtedly a course full of danger. Timorous politicians were for delay; but the deliberate conviction of the great Whig leaders was that something must be hazarded, or that everything was lost. Montague, in particular, is said to have expressed in strong language his determination to kill or cure! If, indeed, there had been any hope that the evil would merely continue to be what it was, it might have been wise to defer till the return of peace an experiment which must severely try the strength of the body politic. But the evil was one which daily made progress, almost visible to the eye. There might have been a recoinage in 1694 with half the risk which must be run in 1696, and great as would be the risk in 1696, that risk would be doubled if the recoinage were postponed till 1698.

"Those politicians whose voice was for delay gave less trouble than another set of politicians who were for a general and immediate recoinage, but who insisted that the new shilling should be worth only ninepence or ninepence halfpenny. At the head of this party was William Lowndes, Secretary of the Treasury, a most respectable and industrious public servant, but much more versed in the details of his office than in the higher parts of political philosophy. He was not in the least aware that a piece of metal with the king's head on it was a commodity of which the price was governed by the same laws which govern the price of a piece of metal fashioned into a spoon or a buckle, and that it was no more in the power of Parliament to make the kingdom richer by calling a crown a pound than to make the kingdom larger by calling a furlong a mile. He seriously believed, incredible as it may seem, that if the ounce of silver were divided into seven shillings instead of five, foreign nations would sell us their wines and their silks for a smaller number of ounces. He had a considerable following, composed partly of dull men who really believed what he told them, and partly of shrewd men who were perfectly willing to be authorized by law to pay a hundred pounds with eighty. Had his arguments prevailed, the evils of a vast confiscation would have been added to all the other evils which afflicted the nation, public credit, still in its tender and sickly infancy, would have been destroyed, and there would have been much risk of a general mutiny of the fleet and army. Happily Lowndes was completely refuted by Locke in a paper drawn up for the use of Somers. Somers was delighted with this little treatise, and desired that it might be printed. It speedily became the text-book of all the most enlightened politicians in the kingdom, and may still be read with pleasure and profit."

The plan for relief finally adopted provided that the money of the kingdom should be recoined according to the old standard of weight and fineness; that all the pieces should be "milled," and that the loss on the clipped pieces should be borne by the public. A time was fixed after which no clipped money should pass, except in payments to the government, and a later time after which no clipped money should be passed at all. To make up in part the loss on the clipped coins, the Bank of England undertook, on the security of the window-tax, to advance to the government £1,200,000. This advance afforded only partial relief. Full relief could only be had when the new currency should come in sufficient abundance to fill up the vacuum made by calling in the old.

"Saturday, the 2d of May, 1696," continued Mr. Macaulay, "had been fixed as the last day on which the clipped crowns, half-crowns, and shillings were to be received by tale in payment of taxes. The Exchequer was besieged from dawn till midnight by an immense multitude. It was necessary to call in the guards for the purpose of keeping order. On the following Monday began a cruel agony of a few months, which was destined to be succeeded by many years of almost unbroken prosperity.

"Most of the old silver had vanished. The new silver had scarcely made its appearance. About four millions sterling in ingots and hammered coin was lying in the vaults of the Exchequer; and the milled money as yet came forth very slowly from the mint. Alarmists predicted that the wealthiest and most enlightened kingdom in Europe would be reduced to the state of those barbarous societies in which a mat is bought with a hatchet, and a pair of moccasins with a piece of venison. There were, indeed, some hammered pieces which had escaped mutilation; and sixpences not clipped within the innermost ring were still current. This old money and the new money together made up a scanty stock of silver, which, with the help of gold, was to carry the nation through the summer. The manufacturers generally continued, though with extreme difficulty, to pay their workmen in coin. The upper classes seem to have lived to a great extent on credit. Even an opulent man seldom had the means of discharging the weekly bills of his baker and butcher. A promissory-note, however, subscribed by such a man, was readily taken in the district where his means and character were well known. The notes of the wealthy money-changers of Lombard Street circulated widely. The paper of the Bank of England did much service.

"The directors soon found it impossible to procure silver to meet every claim which was made on them in good faith. They then bethought them of a new expedient. They made a call of twenty per cent on the proprietors, and thus raised a sum which enabled them to give every applicant fifteen per cent in milled money on what was due to him. They returned him his bank-note, after making a minute upon it that part had been paid. A few notes thus marked are still preserved among the archives of the bank, as memorials of that terrible year. The paper of the corporation continued to circulate; but the value fluctuated violently from day to day, and indeed from hour to hour; for the public mind was in so excitable a state that the most absurd lie which a stock-jobber could invent sufficed to send the price up or down. At one time the discount was only six per cent, at another time twenty-four per cent. A ten-pound note, which had been taken in the morning as worth more than nine pounds, was often worth less than eight pounds before night.

"Meanwhile, strenuous exertions were making to hasten the recoinage. Since the Restoration, the mint had, like every other public establishment in the kingdom, been a nest of idlers and jobbers. The important office of warden, worth between six and seven hundred a year, had become a mere sinecure, and had been filled by a succession of fine gentlemen who were well known at the hazard-table at Whitehall, but who never condescended to come near the Tower. This office had just become vacant, and Montague had obtained it for Newton. The ability, the industry, and the strict uprightness of the great philosopher speedily produced a complete revolution throughout the department which was under his direction. He devoted himself to his task with an activity which left him no time to spare for those pursuits in which he had surpassed Archimedes and Galileo. Till the great work was completely done, he resisted firmly, and almost angrily, every attempt that was made by men of science, either here or on the Continent, to draw him away from his official duties. The old officers of the mint had thought it a great feat to coin silver to the amount of fifteen thousand pounds a week. When Montague talked of thirty or forty thousand, these men of form and precedent pronounced the thing impracticable. But the energy of the young Chancellor of the Exchequer and of his friend the warden accomplished far greater wonders. Soon nineteen mills were going at once in the Tower. As fast as men could be trained to the work in London, bands of them were sent off to other parts of the kingdom. Mints were established at Bristol, York, Exeter, Nor-

wich, and Chester. This arrangement was in the highest degree popular. The machinery and the workmen were welcomed to the new stations with the ringing of bells and the firing of guns. The weekly issue increased to sixty thousand pounds, to eighty thousand, to a hundred thousand, and at length to a hundred and twenty thousand. Yet even this issue, though great, not only beyond precedent, but beyond hope, was scanty when compared with the demands of the nation. Nor did all the newly stamped silver pass into circulation; for during the summer and autumn those politicians who were for raising the denomination of the coin were active and clamorous; and it was generally expected that, as soon as Parliament should reassemble, the standard would be lowered. Of course, no person who thought it probable that he should at a day not far distant be able to pay a debt of a pound with three crown pieces instead of four was willing to part with a crown piece till that day arrived. Most of the milled pieces were, therefore, hoarded. May, June, and July passed away without any perceptible increase in the quantity of good money. It was not till August that the keenest observer could discern the first faint signs of returning prosperity."

Great as was England's peril, it was nothing to our own. A few millions *sterling* measured the whole amount of her currency, and more than half the metal necessary for the new was supplied by the old. We have a currency of $700,000,000, — all debt. How is the capital to take the place of this vast sum to be provided? Have we a Somers and a Montague, exalted statesmen, to unite with a Newton and a Locke, philosophers of immortal fame, to devise the way, and guide the nation safely and triumphantly through its great trial? Even if such men could be found,— and who can believe it possible? — can we hope for a government sufficiently enlightened, courageous, and stable to sustain them under the obloquy, clamor, and opposition that is sure to be encountered, and of the terrible distress which must be created in passing from the old condition to the new? In view of all these discouragements, does not the heart of every thoughtful man sink within him when he sees danger so imminent on one hand, with such ignorance, incompetency, and indifference on the other?

The first step toward reform is the education of the people. This work has to be begun at the alphabet. Upon this subject

the trapper at the sources of the Missouri is just as intelligent as are cabinet ministers, venerable senators, or merchant princes. The latter, in a solemn memorial just addressed by the New York Chamber of Commerce to Congress, have informed that august body that —

> "We have reached (in the recent crisis) the verge of success in bringing gold and currency to par with each other; and it apparently needs only the announcement of the Secretary of the Treasury that legal-tenders will be paid in gold, at an early day, to annul the difference between them.
>
> "When legal-tenders are made as good as gold, will the people be less tenacious of them than now? Is it not more improbable that they will leave the diversified channels of trade and flow into the Treasury for resumption, than it is that the blood will forsake our veins and remain in the heart? Are the people so ignorant of what concerns their welfare as to forget that all are embarked in a common cause, and that unity is essential to stability in our monetary system? If our people are rightly instructed by the press, and doubt and unbelief are not made to take the place of trust and hope, your memorialists are confident that the amount of gold required to perform the work of resumption is greatly overestimated, and that all calculations based upon the experience of small and thickly settled countries must necessarily be at fault."

It is pleasant to witness such faith in human nature. It is a sentiment shared in by the good alone. But currency, it strikes us, is a question of science, not of morals. The worthy gentleman who drew the memorial makes — we beg his pardon, is competent to make — a good note. Let him make two, one for one hundred thousand dollars due in ninety days, with interest at seven per cent; the other for a like sum, without interest, and payable at his pleasure, and see which will go best. We are prepared to wager a thousand dollars to a cent that the former will be preferred, and shall think all the better of human nature for knowing the difference between substance and sham. Does not the same law apply to the obligations of government? Can it hope to make its notes without interest, and due at its pleasure, equal to notes with interest or capital in hand? If it can, then are we on the high road to unbounded prosperity. If not, then are we certainly on the high road to utter ruin.

The hardest lesson in the world to learn is, that cost and worth mean the same thing. Ever since the creation has man been devising some method to get round this law. For ages alchemy did its best, but failed to make the connection between wish and fruition. Mr. Chase's alchemy worked well up to a certain point. It gave the nation a plenty of "money made out of *debt*"; but as this came in floods, "money made out of *capital*" fled from us in like ratio, leaving a sort of underlying consciousness that we have, after all, grasped a shadow and lost the substance. Alchemy is again invoked to our aid, to invest this shadow with the attributes of reality. Mr. Sherman's alchemy is considerate and forbearing relations between the government and the governed; Mr. Boutwell's, a less rapid movement of merchandise and money; that of the Chamber of Commerce of New York, faith in human nature. These are the specifics of men in exalted positions. As we descend the scale every one in the line has his own, equally plausible, with alchemy of some sort as the groundwork of all.

One of the most common phrases used in the discussion of this subject is "credit currency." There may be such a currency; in fact, our own is such: but a credit currency never was, and never can be, a convertible one. It is impossible for government to issue a convertible currency, for the reason that governments never were, and never will be, organized for the purpose of lending capital. They will never have capital to lend. The only mode in which it can bring the currency it may issue to par is to accumulate sufficient means for its payment, —*payment and retirement to the last dollar.* There is no other way, and any attempt to find an easier one only serves to put off the day of reckoning and to aggravate the penalty that must certainly be paid.

Another phrase in still more common use is "the necessity of a flexible currency" to meet the demand caused by the moving of the crops toward the close of the year. We have already shown that, were we on a specie basis, no such want would be felt, as we should have two currencies, one of symbols, rising and falling in amount with the amount of merchandise, and the other of specie in the hands of the people, always available for any emergency, like a balance-wheel whose accu-

mulated power is always sufficient to carry the machinery over the dead point. Were an attempt made to render our present currency "flexible" by an extraordinary issue at certain periods of the year, the business of the country would immediately adapt itself to the increase, so that any attempt to reclaim it would be attended by precisely the same consequences that would now follow an attempt to take in, say $50,000,000 of our legal-tender notes. Should an attempt be made to render the currency really flexible by retiring large quantities issued for this purpose, with the rapidity with which they were put into circulation, certain destruction, instead of the mitigated evil of an insufficient currency, would stare the nation in the face. Why cannot the government now retire its outstanding notes? Because the business of the country has adjusted itself to their present amount. It will be just as difficult, at any time, to retire an equal amount issued to render the currency "flexible." Flexibility could never by any possibility mean contraction, but always expansion. People never talk of having too much currency; it is always that they have too little.

It is in the nature of things that the greater the amount of a currency of debt, the more scarce, in common parlance, must money become. At the moment of its issue it appears to be plenty from the sudden disproportion of the instruments to the means of expenditure; but prices will rise so rapidly under the new stimulant that the equilibrium between the two will be speedily restored. So soon as this result is reached, the whole effect of the issue is lost. As it is debt, the community is impoverished in a degree equal to its amount. As prices, so long as it is outstanding, will not fall, the means of the great mass, which are always nearly stationary, will purchase only two thirds or three quarters of the accustomed amount. In their distress, they remember the pleasant sensation caused by the last tonic, and see no relief but in more of the same kind. The next issue brings less relief; but as it largely increases the disproportion of their means and their necessities, the cry of "scarce money" will become louder and louder, only to be satisfied by a new issue, like the inebriate, who only finds relief in the increased size and frequency of his cups.

Another delusion, almost universally shared in, is that our currency of debt approximates in value to gold as it approximates in price. The near approach of the two at any one time is purely accidental. This currency has been issued twelve years. It was the instrument for making a forced loan, — a "benevolence" from the people. A person who twelve years ago took and held six-per-cent United States bonds has, by compounding the interest, doubled his money. If, at the same time, he took and held, in place of a bond, a United States note, he has received not a penny from it. If he shall be compelled to hold the note for twelve years to come for payment, it would be worth its face, less interest for that time, or thirty-eight per cent of its par value. The value at any time of a United States note is par, less interest to the day of its maturity. But no one can tell when they will be paid. Their enforced use gives them at home a fictitious value. Their real value, however, is the same, whether they be at a discount of ten or of fifty per cent. Should government pass a law making them redeemable on the 1st day of January, 1884, their market value would then undoubtedly fall one half, as such declaration would go far to disclose their real nature, — debt without interest. The public having one element for the calculation would not be slow to supply the other, and the notes would soon come to be regarded as government bonds without interest, and would sell at their real value, plus the accidental attributes due to them as legal tender. Gold and debt are as wide apart as the poles, and the idea that they can be made identical by any process but by payment is too absurd to be entertained by any sane man. Gold will always have the value of gold, while debt may not be worth the paper on which it is written.

The greatest curse of our currency of legal-tender notes is this uncertainty as to their value. They are never due. For a period of twelve years no steps have been made toward retiring them. None may be taken for the next twelve. Gold to-day may be at one hundred and ten; no one would be surprised to see it at one hundred and twenty a month hence. For all purposes of trade and commerce, the value of the whole property of the nation has undergone a similar change. The

worst possible standard of values is the degree of faith which is attached to the securities of a government. There might be some sense in making a thirty-year United States six-per-cent bond legal tender, because its fluctuation in price would be very slight. Every one would know that such a bond meant semi-annual interest, and payment at its maturity. There would be something solid and tangible about it. But what is the value of a bond without interest payable at pleasure, — a bond which no one believes will be paid in the next ten years, and which may possibly never be paid? It defies all calculation. The more we speculate upon its value the more bewildered do we become, till at last there is no standard but a disordered imagination, surging with fearful violence till the patient becomes utterly exhausted, when the whole fabric of the currency falls in ruin to the ground.

Of one thing we may rest assured, that in all matters of currency we are dealing with natural laws which we can neither circumvent nor overturn. As our currency is false in principle, the time will come when our people will refuse to use it, in spite of statute-books, Fourth-of-July orations, or the size of our country. They will, in the end, select the best method in currency, as in the mechanic arts. The recent financial storm which has swept over the country is a warning which, unless speedily heeded, will be followed by others still more terrible, enfeebling and demoralizing our industries to such a degree that the reform will not come by payment but by repudiation. We by no means anticipate such an alternative. Our people will discover the seriousness of our present system and apply the remedies while they have the strength to carry themselves triumphantly through the crisis that awaits them.

The currency issued by the government now amounts to $400,000,000. There is nothing behind this but the pittance in the Treasury, which should not be reduced. The means for its retirement, therefore, must be provided wholly by taxation. Unfortunately our revenues are falling off so rapidly that a considerable deficit is probable for 1874 and 1875. Any plan of reform, therefore, must be accompanied by increase of taxes in the very face of the difficulties and embarrassments that are

certain to arise the moment a reform of the currency is attempted. We have lost precious years of overflowing revenues. In the last four years $383,627,783 of debt in the form of bonds has been retired. Could a portion of this vast sum have been accumulated as a reserve, we might by this time have been far on the way toward specie payments.

The banks have issued their notes to the amount of $350,000,000. For their retirement they have about $400,000,000 in government bonds, locked up in Washington. The payment of their bills receivable would retire their notes, but, under the present system, would leave them without any capital in hand but their reserved profits. Instead of being banks, they would be mere skeletons of banks. Any scheme for resumption, therefore, must involve a modification of our present system in all its essential features. As it stands it is the most cunning contrivance ever devised to render an issue of convertible currency impossible. The capital of our banks is now deposited in the public treasury, with a provision that it is to be used only to pay off their debts when they are in liquidation. One of the first steps toward resumption, therefore, must be to allow them to withdraw and use their bonds without the retirement of their notes, in order to provide the means not only for such retirement, but for providing capital to lend. But unfortunately these bonds could not at present, by sale in our own markets, procure such capital, for the very good reason that such capital does not exist. It is to be feared that their sale abroad, for the purpose of importing the means of resumption, would instantly array the whole commercial world against us, and precipitate the ruin already staring us in the face.

Should an attempt be made to retire one currency without the provision of another to take its place, we may be brought to a dead lock and be compelled "to exchange a mat for a hatchet, and a pair of moccasins for a piece of venison." Government, however, can supply no currency but coin to take the place of its notes; and this coin, unfortunately, will not enter into circulation till its notes are in a great measure retired, or till they cease to be legal tender. The currency to take their place as far as any vacuum remains to be filled must be wholly

supplied by banks, both State and national. To encourage their organization under State laws, the tax upon their notes should be immediately repealed. Their bonds, as fast as they can be realized upon, will give the national banks the means of supplying a convertible currency. These should be required to accumulate annually reserves in coin equalling at least ten per cent of their liabilities. Government should immediately begin the accumulation of similar reserves. It should also declare that its notes, at a certain day, should cease to be legal tender, except in contracts entered into up to that date.

Such provisions would add immediately and largely to the value of money, — of capital. To meet this increased demand, industry and economy would take the place of the idleness and extravagance which have so long prevailed. We have for a long series of years expended beyond our means. We must make up the loss by earning more than we spend. This single sentence states the whole method of resumption.

It is not important here to speculate upon the amount of coin necessary for us to possess as a basis of resumption. We shall ascertain the quantity after we have, for a sufficient length of time, been moving in the right direction. We may be able to learn something from other nations, although we shall probably continue to make greater use of a currency of symbols than any other. M. Victor Bonnet, an eminent French authority in matters of currency and finance, in an article in the *Revue des Deux Mondes* for November 1, states the amount of silver coin in circulation in France and in its mint to be $300,000,000, while the coinage of this metal is going on at the rate of $25,000,000 annually. The gold coin in circulation he estimates at $800,000,000, making a total metallic currency, for that country, of $1,100,000,000; and that, too, after the payment of the German indemnity of $1,000,000,000! The bids for the loan of $750,000,000 brought out in France in the summer of 1872 equalled $8,000,000,000, a sum very nearly four times the amount of the public debt of the United States! These figures, for quality, match Niagara and the Mississippi, and should qualify our conceit a little, when our country and its resources are the theme.

M. Bonnet also states that the silver coin in circulation in Germany equals $480,000,000, while its recent gold coinage (largely drawn from the French payment) amounts to $296,-000,000. In England the amount of coin in circulation outside of the Bank of England, which holds $100,000,000, is estimated at $500,000,000. We shall need at least an equal sum. The amount now held in this country, in all hands, cannot exceed $150,000,000. We must accumulate, therefore, an additional sum of $350,000,000 before we can safely attempt a final resumption. Our mines annually produce about $60,000,000. Could their whole product be retained at home, we could be sure of the required amount in six years. We have for the last ten years exported $52,604,278 over our imports.* This drain will be instantly stopped the moment the banks and the government commence, in earnest, the accumulation of adequate specie reserves.

It has been our purpose, however, in this article, to demonstrate the principles that lie at the foundation of all convertible currencies, and the falseness of our own, not to set out skillfully drawn plans and methods for reform. The right ones will present themselves fast enough after we have acquired the means of resumption. The acquisition of such means will perhaps be found the easiest part of the whole matter. The great difficulty in the way, and it is an almost insurmountable one, is to teach our people that any reform is needed; and secondly, that such reform is not to be gained by magic or sleight of hand, but by genuine hard work. It is astonishing

* The imports and exports of coin and bullion into and from the United States for the past ten years has been as follows: —

Years.	Imports.	Exports.
1863,	$ 9,584,105	$ 55,993,561
1864,	13,115,612	100,321,731
1865,	9,810,072	64,618,124
1866,	10,700,092	82,643,374
1867,	22,070,475	54,976,196
1868,	14,188,368	84,197,920
1869,	19,807,876	42,915,966
1870,	26,419,179	43,883,802
1871,	21,270,024	84,403,359
1872,	13,743,689	72,798,240
	$ 160,709,492	$ 686,752,273

to see a nation utterly lost to sense and reason and incapable of making distinctions which in other matters would be obvious to the commonest understanding. But a currency of debt is the cup of Circe, — a cup

"Which those who taste
(For most do taste through fond intemperate thirst)
Become so perfect in their misery
As not perceive their foul disfigurement,
But boast themselves more comely than before,
And all their friends and native home forget,
To roll with pleasure in a sensual sty."

HENRY V. POOR.

BROOKLINE, MASS., December 1, 1873.

ART. V. — *Sex in Education; or, A Fair Chance for the Girls.* By EDWARD H. CLARKE, M. D., Member of the Massachusetts Medical Society; Fellow of the American Academy of Arts and Sciences; late Professor of Materia Medica in Harvard College, etc., etc. Boston: James R. Osgood and Company. 1873.

IN this small volume Dr. Clarke takes up the discussion of one of the many important questions of the present day, the education of women, bringing to its treatment the result of considerable experience and that frankness of speech warranted by his position, which, although demanded for the full comprehension of the subject, has often been lacking in the writings of others upon this matter. For the proper consideration of sex in education it is necessary that there should be unreserved mention of certain phenomena which modesty bids should be generally ignored; but so long as reticence tends to allow the spread of harm, we should gladly welcome any plain words that may help to reduce the suffering that arises from ignorance. Dr. Clarke discusses a delicate subject, but, in general, only with what bluntness is required; in one or two places, however, the earnestness with which he denounces what he considers impending evils runs away with him, and the reader cannot help shrinking somewhat at his perhaps overdrawn description of the woman of the future.